

CAPITAL GAIN DEDUCTION FOR SALE OF STOCK TO IOWA ESOP

Prior Law

An Iowa capital gain exclusion for individual income tax is allowed for certain sales of business assets. These include the following:

- Sale of real property used in a business, if held for ten years or more and the taxpayer materially participated for ten years
- Sale of tangible personal property and service of a business, if held for ten years or more and the taxpayer materially participated for ten years
- Sale of cattle and horses, if held for 24 months and more than one-half of the taxpayer's gross income is from farming or ranching activities
- Sale of other breeding livestock other than cattle or horses, if held for 12 months or more and more than one-half of the taxpayer's gross income is from farming or ranching activities
- Sale of timber

Any capital gain from the sale of stock did not qualify for the Iowa capital gains exclusion.

New Provisions

A limited capital gain exclusion is available for the sale of stock to an Iowa employee stock ownership plan (ESOP). If the qualified Iowa ESOP owns at least thirty percent of all outstanding employer securities (as defined in section 409(l) of the Internal Revenue Code) issued by the Iowa corporation after the sale transaction, then 50% of the capital gain from the sale of stock qualifies for the Iowa capital gain exclusion and can be excluded from Iowa individual income tax.

The Iowa corporation must have its commercial domicile in Iowa, and the qualified Iowa ESOP must meet the federal requirements for an ESOP as defined in section 4975(e)(7) of the Internal Revenue Code.

Section Amended

Section 133 of 2012 Iowa Acts House File 2465 amends section 422.7, subsection 21, Code Supplement 2011, by adding new paragraph e.

Effective Date

Retroactive to January 1, 2012, for tax years beginning on or after that date.